



Financial Terms Glossary

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“Formal education will make you a living; self-education will make you a fortune.” — Jim Rohn

Banking and Everyday Money Management

Bank: A financial institution that accepts deposits, makes loans, and provides services such as checking accounts, savings accounts, debit cards, and online banking.

Checking account: A bank or credit union account designed for frequent deposits, withdrawals, bill payments, and debit card transactions.

Savings account: An account used to store money while earning interest, typically with fewer transactions than a checking account.

Credit union: A member-owned financial institution that offers many of the same services as a bank, often with membership requirements.

FDIC insurance: Federal deposit insurance that protects eligible deposits at insured banks up to applicable limits if the bank fails.

NCUA insurance: Federal insurance that protects eligible deposits at federally insured credit unions up to applicable limits if the credit union fails.

Direct deposit: An electronic payment, such as a paycheck or government benefit, sent directly into a bank or credit union account.

Debit card: A card that lets you spend money directly from your checking account or another linked deposit account.

ATM: An automated teller machine that allows customers to withdraw cash, deposit funds, transfer money, or check balances.

Overdraft: A transaction that causes an account balance to fall below zero; banks may decline the transaction or cover it and charge a fee.

Automatic payment: A recurring payment set up to be paid automatically from a bank account, credit card, or other payment method.

Budgeting, Saving, and Cash Flow

Budget: A plan for how income will be used for expenses, savings, debt payments, and goals over a specific period.

Net income: The amount of money received after taxes, payroll deductions, and other required withholdings are taken out.

Gross income: Income before taxes, insurance premiums, retirement contributions, and other deductions are subtracted.

Fixed expense: A cost that usually stays the same from month to month, such as rent, a car payment, or insurance premium.

Variable expense: A cost that changes from month to month, such as groceries, utilities, gas, dining out, or entertainment.

Emergency fund: Money set aside for unexpected expenses or income interruptions, such as medical bills, car repairs, or job loss.

Cash flow: The movement of money in and out of a household; positive cash flow means more money comes in than goes out.

Needs: Essential expenses required for basic living and obligations, such as housing, food, utilities, transportation, insurance, and minimum debt payments.

Wants: Nonessential spending that improves comfort or enjoyment, such as subscriptions, vacations, hobbies, and restaurant meals.

Compound interest: Interest earned on both the original amount of money and on previously earned interest, allowing savings or debt to grow faster over time.

Credit, Borrowing, and Debt

Credit: The ability to borrow money or obtain goods and services now with a promise to pay later.

Credit report: A record of a person's credit accounts, payment history, debts, collections, bankruptcies, and inquiries, maintained by credit reporting companies.

Credit score: A number based on credit report information that lenders may use to estimate the likelihood that a borrower will repay debt.

APR: Annual Percentage Rate; the yearly cost of borrowing money expressed as a percentage, including interest and, in some cases, certain fees.

Interest rate: The percentage charged for borrowing money or paid for keeping money in a deposit or investment account.

Principal: The original amount borrowed or invested, not including interest, fees, or investment earnings.

Minimum payment: The smallest amount a borrower must pay by the due date to keep a credit account in good standing.

Credit limit: The maximum amount a lender allows a borrower to charge or borrow on a revolving credit account.

Credit utilization ratio: The percentage of available revolving credit currently being used, often calculated by dividing credit card balances by total credit limits.

Debt-to-income ratio: A comparison of monthly debt payments to gross monthly income, often used by lenders when evaluating loan applications.

Collateral: Property pledged to secure a loan, such as a car or home, that a lender may be able to take if the borrower defaults.

Default: Failure to meet the terms of a loan or credit agreement, often because required payments were not made.

Debt consolidation: Combining multiple debts into one new loan or repayment plan, often to simplify payments or seek a lower interest rate.

Loans, Housing, and Major Purchases

Loan: Money borrowed with an agreement to repay it, usually with interest, over a set period or according to stated terms.

Installment loan: A loan repaid with scheduled payments over time, such as many auto loans, personal loans, and student loans.

Mortgage: A loan used to buy or refinance real estate, with the property serving as collateral for the loan.

Down payment: Money paid upfront toward the purchase price of a home, vehicle, or other major purchase.

Fixed-rate mortgage: A mortgage with an interest rate that stays the same for the life of the loan, making principal and interest payments predictable.

Adjustable-rate mortgage: A mortgage with an interest rate that can change after an initial period based on market conditions and the loan's terms.

Escrow: An account or arrangement in which a third party holds money or documents until certain conditions are met; mortgage escrow accounts often collect funds for property taxes and insurance.

Closing costs: Fees and expenses paid when completing a home purchase or refinance, such as lender fees, title fees, taxes, and prepaid insurance.

Loan Estimate: A standardized mortgage form that shows estimated loan terms, monthly payments, interest rate, closing costs, and other key details.

Closing Disclosure: A standardized mortgage form received before closing that lists final loan terms, projected payments, and closing costs.

Equity: The value of ownership in an asset after subtracting any debt owed on it; for a home, it is the market value minus the mortgage balance.

Investing and Building Wealth

Asset: Anything with economic value, such as cash, a home, a vehicle, stocks, bonds, or retirement savings.

Liability: A debt or financial obligation, such as a loan balance, credit card debt, or unpaid bill.

Net worth: The value of everything owned minus everything owed.

Stock: An ownership share in a company; stockholders may benefit if the company grows, but stock values can rise or fall.

Bond: A type of loan made by an investor to a government or company, typically repaid with interest over time.

Mutual fund: An investment fund that pools money from many investors to buy a collection of stocks, bonds, or other assets.

Exchange-traded fund: An investment fund that holds a basket of assets and trades on an exchange like a stock.

Diversification: Spreading money across different investments to reduce the risk that one poor-performing investment will heavily damage the overall portfolio.

Capital gain: Profit from selling an asset for more than its purchase price.

Capital loss: Loss from selling an asset for less than its purchase price.

Risk tolerance: A person's ability and willingness to accept investment losses or volatility in pursuit of potential gains.

Dividend: A payment a company may make to shareholders from profits or retained earnings; dividends are not guaranteed and can be increased, reduced, or suspended.

Dividend yield: A percentage that compares a stock's annual dividend payment to its share price, often used to estimate income from dividend-paying stocks.

Common stock: A type of ownership share in a company that may provide voting rights and potential growth, but is generally paid after creditors and preferred shareholders if the company is liquidated.

Preferred stock: A type of stock that usually has priority over common stock for dividend payments and claims on assets, but often has limited or no voting rights.

Share: One unit of ownership in a company or fund.

Brokerage account: An account used to buy, sell, and hold investments such as stocks, bonds, mutual funds, and exchange-traded funds.

Market order: An order to buy or sell an investment as soon as possible at the best available current price.

Limit order: An order to buy or sell an investment only at a specified price or better; execution is not guaranteed.

Bid price: The highest price a buyer is currently willing to pay for an investment.

Ask price: The lowest price a seller is currently willing to accept for an investment.

Bid-ask spread: The difference between the bid price and ask price; a smaller spread usually means the investment is easier to trade at prices close to the market quote.

Market capitalization: The total market value of a company's outstanding shares, calculated by multiplying share price by the number of shares outstanding.

Blue-chip stock: Stock of a large, established company with a long operating history; blue-chip stocks can still lose value and are not risk-free.

Growth stock: Stock of a company expected to grow faster than the broader market, often reinvesting profits instead of paying high dividends.

Value stock: Stock that appears inexpensive relative to measures such as earnings, sales, book value, or dividend yield, though it may remain undervalued or decline further.

Volatility: The degree to which an investment's price moves up and down over time; higher volatility generally means larger potential price swings.

Index: A group of securities used to represent and measure a market or market segment, such as large U.S. companies or investment-grade bonds.

Index fund: A mutual fund or exchange-traded fund designed to track the performance of a specific market index rather than trying to outperform it.

Expense ratio: The annual cost of owning a mutual fund or exchange-traded fund, expressed as a percentage of invested assets.

Retirement, Education, and Long-Term Planning

401(k): An employer-sponsored retirement plan that allows eligible workers to contribute part of their pay, often with tax advantages and sometimes employer matching contributions.

IRA: Individual Retirement Arrangement; a retirement account that individuals can open outside an employer plan, with traditional and Roth versions offering different tax treatment.

Roth account: A retirement account funded with after-tax dollars, where qualified withdrawals may be tax-free if IRS rules are met.

Traditional retirement account: A retirement account that may allow pre-tax contributions or tax deductions, with withdrawals generally taxed as income later.

Employer match: Money an employer contributes to an employee's retirement plan based on the employee's own contributions, subject to plan rules.

Vesting: The process of earning ownership of employer-provided retirement contributions over time according to a plan schedule.

Required minimum distribution: A minimum amount that some retirement account owners must withdraw each year after reaching a certain age, according to tax rules.

529 plan: A tax-advantaged savings plan commonly used to save for qualified education expenses.

Annuity: A contract with an insurance company designed to provide income payments, often during retirement, in exchange for a lump-sum payment, a series of payments, or both.

Immediate annuity: An annuity that generally begins making income payments soon after the contract is purchased.

Deferred annuity: An annuity that delays income payments until a future date, allowing the contract value to potentially grow during an accumulation period.

Fixed annuity: An annuity that offers a stated interest rate or minimum guaranteed rate for a period under the contract's terms.

Variable annuity: An annuity whose value and payments may rise or fall based on the performance of selected investment options, usually called subaccounts.

Indexed annuity: An annuity whose credited interest is linked in part to the performance of a market index, subject to contract limits such as caps, spreads, or participation rates.

Surrender charge: A fee that may apply if money is withdrawn from an annuity or certain insurance products during a specified surrender period.

Beneficiary: A person or entity named to receive money, property, insurance proceeds, or account assets after certain events, such as death.

Insurance and Risk Protection

Insurance: A contract that helps protect against certain financial losses in exchange for premiums paid to an insurance company.

Premium: The amount paid regularly for insurance coverage, such as monthly, quarterly, or annually.

Deductible: The amount a policyholder must pay out of pocket for covered costs before insurance begins paying, depending on the policy.

Copay: A fixed amount paid for a covered service, commonly used in health insurance, such as a set amount for a doctor visit or prescription.

Coinsurance: The percentage of covered costs a policyholder pays after meeting the deductible, such as 20 percent of an approved medical bill.

Out-of-pocket maximum: The most a policyholder must pay for covered services in a plan year before the insurer pays 100 percent of covered costs.

Claim: A request for payment or coverage submitted to an insurance company after a covered event or expense.

Term life insurance: Life insurance that provides coverage for a specific period, such as 10, 20, or 30 years, and pays a death benefit if the insured person dies during that term.

Cash value life insurance: Permanent life insurance that may build a savings-like cash value in addition to providing a death benefit.

Taxes, Paychecks, and Government Benefits

Income tax: Tax paid to federal, state, or local governments based on taxable income.

Payroll tax: Taxes withheld from wages to fund programs such as Social Security and Medicare, along with any required employer contributions.

W-4: A form employees use to tell an employer how much federal income tax to withhold from paychecks.

W-2: A tax form employers provide showing wages paid and taxes withheld for an employee during the year.

1099: A tax form used to report certain types of income other than regular employee wages, such as freelance income, interest, dividends, or retirement distributions.

Tax deduction: An amount that may reduce taxable income, potentially lowering the amount of income subject to tax.

Tax credit: An amount that may reduce the tax owed dollar for dollar, subject to eligibility rules.

Adjusted gross income: Gross income minus certain adjustments allowed under tax rules; it is often used to determine eligibility for deductions, credits, and programs.

Consumer Protection, Fraud, and Financial Safety

Identity theft: The unauthorized use of someone's personal information to commit fraud or obtain money, credit, goods, or services.

Phishing: A scam that uses fake emails, texts, calls, or websites to trick people into revealing personal information, passwords, or account details.

Fraud alert: A notice placed on a credit report that tells lenders to take extra steps to verify identity before opening new credit.

Credit freeze: A restriction that limits access to a credit report, making it harder for criminals to open new credit accounts in someone else's name.

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